

Arizona Department of Administration
Risk Management

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DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	200.0	96.0	96.0
Personal Services	3,582,600	3,984,500	3,984,500
Employee Related Expenditures	1,059,200	1,248,100	1,248,100
Professional and Outside Services	135,200	142,500	142,500
Travel - In State	42,600	53,800	53,800
Travel - Out of State	300	13,400	13,400
Other Operating Expenditures	1,544,700	1,916,200	1,924,100
Equipment	73,900	53,600	53,600
OPERATING SUBTOTAL	6,438,500	7,412,100	7,420,000
SPECIAL LINE ITEMS			
Risk Management Losses and Premiums	49,397,900	43,686,700	47,322,400
Workers' Compensation Losses and Premiums	21,666,300	24,587,500	24,517,700
Attorney General Defense	7,549,600	0	0
External Legal Services	0	5,085,800	5,672,100
Non-Legal Related Expenditures	0	2,877,200	3,153,800
PROGRAM TOTAL	85,052,300	83,649,300	88,086,000

FUND SOURCES

<i>Other Appropriated Funds</i>			
Risk Management Revolving Fund	85,052,300	83,649,300	88,086,000
SUBTOTAL - Other Appropriated Funds	85,052,300	83,649,300	88,086,000
SUBTOTAL - Appropriated Funds	85,052,300	83,649,300	88,086,000
Other Non-Appropriated Funds	1,614,800	2,005,700	1,672,500
TOTAL - ALL SOURCES	86,667,100	85,655,000	89,758,500

CHANGE IN FUNDING SUMMARY

	FY 2006 to FY 2007 JLBC	
	\$ Change	% Change
Other Appropriated Funds	4,436,700	5.3%
Total Appropriated Funds	4,436,700	5.3%
Non Appropriated Funds	(333,200)	(16.6%)
Total - All Sources	4,103,500	4.8%

COST CENTER DESCRIPTION — The Risk Management Division acts as the state's insurance agent, making property loss, liability, and workers' compensation payments, defending and recovering damages for the state and its employees, and directing loss prevention programs. With the exception of certain specialty and excess coverage, for which the division purchases insurance, the state is self-insured, paying for its own losses and liabilities. Costs of claims are paid through the Risk Management Fund.

PERFORMANCE MEASURES	FY 2003	FY 2004	FY 2005	FY 2007
	Actual	Actual	Actual	JLBC
• Workers' compensation incidence rates/100 FTE Positions	4.6	5.2	4.2	5.0
• Customer satisfaction with self-insurance (Scale 1-8)	6.3	6.7	6.7	6.8

RECOMMENDED CHANGES FROM FY 2006

Operating Budget

The JLBC recommends \$7,420,000 from the Risk Management Revolving Fund for the operating budget in FY 2007. This amount would fund the following adjustments:

Standard Changes	OF	<u>FY 2007</u> \$7,900
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The JLBC recommends an increase of \$7,900 from the Risk Management Revolving Fund in FY 2007 for lease-purchase and privatized lease-to-own agreements.

Special Line Items

Risk Management Losses and Premiums

The JLBC recommends \$47,322,400 from the Risk Management Revolving Fund for Risk Management Losses and Premiums in FY 2007. This amount would fund the following adjustments:

Property & Liability Losses	OF	3,635,700
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The JLBC recommends an increase of \$3,635,700 from the Risk Management Revolving Fund in FY 2007 for increased property and liability losses as projected by the actuary.

This line item represents estimated payments for liability and property settlements, medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Workers' Compensation Losses and Premiums

The JLBC recommends \$24,517,700 from the Risk Management Revolving Fund for Workers' Compensation Losses and Premiums in FY 2007. This amount would fund the following adjustments:

Workers' Compensation Losses	OF	(69,800)
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The JLBC recommends a decrease of \$(69,800) from the Risk Management Revolving Fund in FY 2007 for decreased workers' compensation losses as projected by the actuary.

This line item accounts for the state's liability in workplace injuries. The funding represents payments for workers' compensation beneficiaries, hospital and medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Attorney General Defense

The JLBC recommends no funding from the Risk Management Revolving Fund for the Attorney General Defense SLI in FY 2007. This amount is unchanged from FY 2006.

The FY 2006 budget included a decrease of \$(7,746,700) and (104) FTE Positions from the Risk Management Revolving Fund to transfer this line item to the Attorney General budget to more accurately reflect the budgets of the 2 departments and avoid double-counting FTE Positions. (*See Risk Management Interagency Service Agreement Special Line Item in the Attorney General section.*)

This line item funded the Risk Management Division's contract, with the Attorney General Insurance Defense Section, for legal representation in Risk Management related lawsuits against the state.

External Legal Services

The JLBC recommends \$5,672,100 from the Risk Management Revolving Fund for External Legal Services in FY 2007. This amount would fund the following adjustments:

External Legal Expenses	OF	586,300
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The JLBC recommends an increase of \$586,300 from the Risk Management Revolving Fund in FY 2007 for increased external legal expenditures. This amount is based on a percentage of the actuarial determined property and liability losses and workers' compensation losses. Of this increase \$586,900 is due to estimated increases in property and liability losses and \$(600) is due to estimated decreases in workers' compensation losses.

This line item funds legal representation from outside the Office of the Attorney General in Risk Management or Workers' Compensation related lawsuits against the state. The division hires private counsel in circumstances where a legal conflict of interest exists. In the past few years, the division has also sought outside counsel when staffing from the Office of the Attorney General was not available.

Non-Legal Related Expenditures

The JLBC recommends \$3,153,800 from the Risk Management Revolving Fund for Non-Legal Related Expenditures in FY 2007. This amount would fund the following adjustments:

Non-Legal Related Expenses	OF	276,600
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The JLBC recommends an increase of \$276,600 from the Risk Management Revolving Fund in FY 2007 for increased non-legal related expenditures. This amount is based on a percentage of the actuarial determined property and liability losses and workers' compensation losses. Of this increase \$278,200 is due to estimated increases in property and liability losses and \$(1,600) is due to estimated decreases in workers' compensation losses.

This line item funds financial and actuarial analyses, relevant investigations, and related travel.

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SUMMARY OF FUNDS - SEE AGENCY SUMMARY
